

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

Local Unit of Government Type <input type="checkbox"/> County <input type="checkbox"/> City <input type="checkbox"/> Twp <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Unit Name Lakewood Wastewater Authority	County Ionia
Fiscal Year End December 31, 2006	Opinion Date January 24, 2007	Date Audit Report Submitted to State February 8, 2007	

We affirm that:

We are certified public accountants licensed to practice in Michigan.

We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).


YES NO

Check each applicable box below. (See instructions for further detail.)

1. ☒ ☐ All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
2. ☒ ☐ There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures..
3. ☒ ☐ The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
4. ☒ ☐ The local unit has adopted a budget for all required funds.
5. ☒ ☐ A public hearing on the budget was held in accordance with State statute.
6. ☒ ☐ The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
7. ☒ ☐ The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
8. ☒ ☐ The local only holds deposits/investments that comply with statutory requirements.
9. ☒ ☐ The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
10. ☒ ☐ There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
11. ☒ ☐ The local unit is free of repeated comments from previous years.
12. ☒ ☐ The audit opinion is UNQUALIFIED.
13. ☒ ☐ The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
14. ☒ ☐ The board or council approves all invoices prior to payment as required by charter or statute.
15. ☒ ☐ To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

We have enclosed the following:	Enclosed	Not Required (enter a brief justification)		
Financial Statements	<input checked="" type="checkbox"/>			
The letter of Comments and Recommendations	<input checked="" type="checkbox"/>			
Other (Describe)	<input type="checkbox"/>			
Certified Public Accountant (Firm Name) Karl L. Drake, CPA		Telephone Number 517-937-9333		
Street Address 3775 Kimmel Road		City Horton	State MI	Zip 49246
Authorizing CPA Signature 		Printed Name Karl L. Drake		License Number 1101016526

LAKEWOOD WASTEWATER AUTHORITY

FINANCIAL STATEMENTS

DECEMBER 31, 2006

**KARL L. DRAKE
CERTIFIED PUBLIC ACCOUNTANT**

LAKEWOOD WASTEWATER AUTHORITY

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INDEPENDENT AUDITOR'S REPORT

Board of Directors
Lakewood Wastewater Authority
Lake Odessa, Michigan 48849

We have audited the accompanying financial statements of the governmental activities, business-type activities and each major fund, of Lakewood Wastewater Authority, as of and for the year ended December 31, 2006, which collectively comprise the Authority's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Lakewood Wastewater Authority's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with United States generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, business type activities and each major fund of Lakewood Wastewater Authority as of December 31, 2006, and the respective changes in financial position, thereof, for the year then ended in conformity with United States generally accepted accounting principles.

In accordance with *Government Auditing Standards*, we have also issued our report dated January 24, 2007, on our consideration of Lakewood Wastewater Authority's internal control over financial reporting and our tests of its compliance with certain provision of laws, regulations, contracts and grants.

Board of Directors
Lakewood Wastewater Authority

The administration's discussion and analysis and budgetary comparison information on pages 3 through 7 and pages 25-27 are not a required part of the basic financial statements but is supplemental information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplemental information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Lakewood Wastewater Authority's basic financial statements. The accompanying other supplemental information, as identified in the table of contents, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the general purpose financial statements and, in our opinion, is fairly stated in all material respects in relation to the general purpose financial statements taken as a whole.

A handwritten signature in cursive script, reading "Karl L. Drake".

Karl L. Drake, P.C.
Certified Public Accountant

January 24, 2007

LAKEWOOD WASTEWATER AUTHORITY

Management's Discussion and Analysis

This section of Lakewood Wastewater Authority's annual financial report presents discussion and analysis of the Authority's financial performance during the fiscal year ended December 31, 2006. It is best read in conjunction with the Authority's financial statements that follow this section.

Overview

This annual report consists of a series of financial statements and notes to those statements. The statements are organized so the reader can understand Lakewood Wastewater Authority financially and the two types of statements present different views of the Authority. The government-wide statements reflect information about the activities of the entire Authority, presenting an aggregate view and a longer-term view of the Authority's overall financial status. The fund financial statements focus on individual components of Authority government, reporting the Authority's operations in more detail and demonstrating how services were financed in the short term.

Government-Wide Statements

The Statement of Net Assets and the Statement of Activities report information about the Authority as a whole using accounting methods similar to those used by private-sector companies. These statements are prepared to include all assets and liabilities, using the accrual basis of accounting. All of the year's revenues and expenses are taken into account regardless of when cash is received or paid. The two government-wide statements report the Authority's net assets - the difference between assets and liabilities- as one way to measure the Authority's financial health or position. Over time, increases or decreases in the Authority's net assets are an indicator of whether its financial health is improving or deteriorating. To assess the overall health of the Authority you need to consider additional non-financial factors such as changes in the Authority's customer base and the condition of the Authority's system.

The government-wide financial statements of the Authority are divided into two categories:

- *Governmental activities* - Funds set aside for specific future purposes are included here, including Bond repayment, capital improvements, replacements, and Bio-solid removal.
- *Business-Type activities* - Operation and maintenance of the sanitary sewer system is included here. The Authority charges fees to customers to cover the costs of providing this service.

Fund Financial Statements

The fund financial statements provide more detailed information about the Authority's most significant funds, not the Authority as a whole. The Board of Directors establishes funds as needed to help it control and manage money for particular purposes or to demonstrate that it is meeting legal responsibilities.

The Authority currently has two types of funds:

Governmental funds - The Authority's designated monies are included in governmental funds that focus on how money flows in and out and the balances remaining at year-end that are available for spending. Activity is reported using an accounting method called modified accrual accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the operations of the Authority that helps you determine whether there are more or fewer resources that can be spent in the near future to finance the Authority's programs. We describe the relationship between governmental activities (reported in the statement of net assets and the statement of activities) and governmental funds in a reconciliation.

Proprietary funds - Services for which the Authority charges customers a fee are reported in proprietary funds. Proprietary fund statements provide both long and short-term financial information. The Authority's enterprise fund, the Sewer Fund, is a type of proprietary fund.

The Authority as a Whole

The statement of net assets presents the perspective of the Authority as a whole. Table 1 provides a summary of the Authority's net assets as of December 31, 2006, in thousands of dollars.

TABLE 1	Governmental Activities		Business-Type Activities		Total	
	2006	2005	2006	2005	2006	2005
ASSETS						
Current and other assets	\$ 1,146	\$ 1,205	\$ 830	\$ 745	\$ 1,976	\$ 1,950
Capital Assets	---	---	11,727	9,089	11,727	9,089
TOTAL ASSETS	1,146	1,205	12,557	9,834	13,703	11,039
LIABILITIES						
Current liabilities	---	10	595	200	604	210
Long-term liabilities	29	26	880	1,080	909	1,106
TOTAL LIABILITIES	38	36	1,475	1,280	1,513	1,316
NET ASSETS						
Invested in capital assets, Net of related debt	---	---	10,647	7,819	10,647	7,819
Restricted	452	425	---	---	452	425
Unrestricted	656	744	435	735	1,091	1,479
TOTAL NET ASSETS	\$ 1,108	\$ 1,169	\$ 11,082	\$ 8,554	\$ 12,190	\$ 9,723

LAKEWOOD WASTEWATER AUTHORITY

Management's Discussion and Analysis

The Authority as a Whole (Continued)

In both the governmental and business-type activities, capital assets are depreciated on a straight-line basis.

The Authority's combined net assets were \$12.2 million at December 31, 2006. Capital assets (net of related debt) totaling \$10.6 million compares the historical cost, less depreciation, to the long-term debt used to finance the acquisition of those assets. In the governmental activities, the Authority currently has \$.5 million in restricted net assets. (Restricted net assets are reported separately to reflect any assets that cannot be used for daily operations due to legal constraints from debt covenants.) The \$1.1 million in combined unrestricted net assets reflects the accumulated results of all past years' operations.

The following table shows the revenue and expense activity during the current and past fiscal year and the change in net assets (in thousands of dollars), as reported in the statement of activities.

TABLE 2	Governmental Activities		Business-Type Activities		Total	
	2006	2005	2006	2005	2006	2005
REVENUE						
Program Revenue						
Charges for Services	\$ 8.7	\$ 24.7	\$ 1,075.0	\$ 1,023.6	\$ 1,083.7	\$ 1,048.3
General Revenue						
Property Taxes	---	---	---	---	---	---
State Entitlements	---	---	---	---	---	---
Interest Earnings	47.2	31.9	14.2	10.4	61.4	42.3
Other	-57.4	89.5	2,377.1	-84.9	2,319.7	4.6
TOTAL REVENUE	-1.5	146.1	3,466.3	949.1	3,464.8	1,095.2
EXPENSES						
General Government	---	---	---	---	---	---
Public Safety	---	---	---	---	---	---
Public Works	---	---	---	---	---	---
Recreation	---	---	---	---	---	---
Interest On Long Term Debt	59.9	56.7	---	---	59.9	56.7
Depreciation (Unallocated)	---	---	---	---	---	---
Sewer	---	---	937.8	891.5	937.8	891.5
TOTAL EXPENSES	59.9	56.7	937.8	891.5	997.7	948.2
CHANGE IN NET ASSETS	\$ -61.4	\$ 89.4	\$ 2,528.5	\$ 57.6	\$ 2,467.1	\$ 147.0

Governmental Activities

The governmental activities experienced a decrease in net assets of \$61,000. The primary reason for this was the Huddle Road Force Main Project that was paid for with available capital improvement resources.

Business-Type Activities

The Authority's business-type activity consists of the Sewer Fund. This fund experienced an increase in net assets of \$2,500,000. In this year, the Authority was involved in two major construction projects (oxidation ditch and Jordan Lake Road extension) that were financed by a combination of customer revenues and grants through a local government. These revenues totaled over \$2,300,000. These projects will allow greater commercial capacity for the Authority, and resulted in operating revenues increasing by over \$30,000 in 2006. Operating expenses were consistent with prior year levels.

The Authority's Funds

An analysis of the Authority's major funds follows the government-wide financial statements. As noted earlier, the Authority creates funds to help manage money for specific purposes and to demonstrate accountability for certain activities. The Authority's major governmental funds are the Debt Service Fund and the Special Revenue Funds.

At December 31, 2006, the governmental funds reported a combined fund balance of \$1,144,443, which is a decrease of \$60,119 from the previous year.

General Fund Budgetary Highlights

Over the course of the year, the Authority amends the budget in response to changing events. In this year, amendments were made to include the revenue and expenses of the oxidation ditch construction, Jordan Lake Road extension project, and Huddle Road Force Main Project.

Capital Asset and Debt Administration

At the end of 2006, the Authority managed capital assets valued at over \$11 million including plant, equipment, and sewer lines. The most significant additions to the Authority's capital assets this year include system improvements.

LAKEWOOD WASTEWATER AUTHORITY

Management's Discussion and Analysis

Capital Asset and Debt Administration (Continued)

Capital Assets Net of Accumulated Depreciation (Dollars are in thousands)						
	Governmental Activities		Business-Type Activities		Totals	
	2006	2005	2006	2005	2006	2005
Non-Depreciable Assets						
Land	\$ ---	\$ ---	\$ 508	\$ 508	\$ 508	\$ 508
Depreciable Assets						
Plant	---	---	11,185	8,566	11,185	8,566
Equipment	---	---	34	14	34	14
Total	\$ ---	\$ ---	\$ 11,727	\$ 9,088	\$ 11,727	\$ 9,088

At year-end, the Authority had \$1,080,000 in outstanding Transportation Bonds remaining from a 1992 issuance in the amount of \$2,780,000. No new debt resulted from this year's activities. Employee compensated absences account for the Authority's remaining long-term debt.

Economic Factors and Next Year's Budgets and Rates

In the Sewer Fund, sewer payment revenue was increased to reflect the increase in usage of a major commercial customer who has expanded their production facility. Other revenue will remain consistent with the prior year. Funds in the sewer fund available for appropriation are \$290,000, which is approximately a forty percent decrease over last year. The decrease is offset by fewer dollars transferred to other funds.

Expenditures are budgeted slightly higher than last year, most significantly because of dollars transferred to other funds. The oxidation ditch addition to the treatment plant is basically completed and in operation. The Authority does not foresee a rate increase in the next budget year. Connection fees will be raised by the increase in the consumer price index for 2006. In the future, the Authority plans to complete construction of a 20-inch Force Main from Tupper Creek to the Treatment Plant.

Contacting the Authority's Management

This financial report is designed to provide our citizens, customers, investors and creditors with a general overview of the Authority's finances and to demonstrate the Authority's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Supervisor, 13751 Harwood Road, Lake Odessa, MI 48849.

Government-Wide Financial Statements**STATEMENT OF NET ASSETS****DECEMBER 31, 2006**

	Governmental Activities	Business Type Activities	Total
ASSETS			
Current Assets			
Cash and Cash Equivalents	\$ 1,141,225	\$ 293,903	\$ 1,435,128
Due From Other Governmental Units	---	---	---
Accounts Receivable	4,373	536,469	540,842
Prepaid Expenditures	---	---	---
Total Current Assets	1,145,598	830,372	1,975,970
Non-Current Assets			
Capital Assets	---	17,123,462	17,123,462
Less: Accumulated Depreciation	---	-5,396,508	-5,396,508
Total Non-Current Assets	---	11,726,954	11,726,954
TOTAL ASSETS	\$ 1,145,598	\$ 12,557,326	\$ 13,702,924
LIABILITIES AND NET ASSETS			
Current Liabilities			
Accounts Payable	\$ 1,155	\$ 394,745	\$ 395,900
Deferred Revenue	---	---	---
Accrued Interest	8,330	---	8,330
Bonds Payable, Due within One Year	---	200,000	200,000
Total Current Liabilities	9,485	594,745	604,230
Non-Current Liabilities			
Bonds Payable	---	880,000	880,000
Compensated Absences and Severance Pay	28,593	---	28,593
Total Non-Current Liabilities	28,593	880,000	908,593
TOTAL LIABILITIES	38,078	1,474,745	1,512,823
NET ASSETS			
Invested in Capital Assets, Net of Related Debt	---	10,646,954	10,646,954
Restricted for Debt Service	451,323	---	451,323
Unrestricted	656,197	435,627	1,091,824
TOTAL NET ASSETS	1,107,520	11,082,581	12,190,101
TOTAL LIABILITIES AND NET ASSETS	\$ 1,145,598	\$ 12,557,326	\$ 13,702,924

See Accompanying Notes to Financial Statements

LAKEWOOD WASTEWATER AUTHORITY

Government-Wide Financial Statements

STATEMENT OF ACTIVITIES

YEAR ENDED DECEMBER 31, 2006

		Program Revenues		Net <Expense> Revenue and Changes in Net Assets		
	Expenses	Charges For Services	Operating Grants	Governmental Activities	Business - Type Activities	Total
FUNCTIONS/PROGRAMS						
Governmental Activities						
General Government	\$ ---	\$ ---	\$ ---	\$ ---	\$ ---	\$ ---
Public Safety	---	---	---	---	---	---
Public Works	---	---	---	---	---	---
Recreational and Cultural	---	---	---	---	---	---
Interest on Long-Term Debt	59,943	8,746	---	-51,197	---	-51,197
Depreciation (Unallocated)	---	---	---	---	---	---
Total Governmental Activities	59,943	8,746	---	-51,197	---	-51,197
Business-Type Activities						
Sewer	937,816	1,075,044	---	---	137,228	137,228
Total Activities	\$ 997,759	\$ 1,083,790	\$ ---	\$ -51,197	\$ 137,228	\$ 86,031
General Revenue						
Taxes						
Property Taxes, Levied for General Operations				\$ ---	\$ ---	\$ ---
Property Taxes, Levied for Debt Service				---	---	---
State of Michigan Aid, Unrestricted				---	---	---
Interest Earnings				47,162	14,170	61,332
Transfers				-62,740	62,740	---
Construction Revenue				---	2,314,335	2,314,335
Other				5,333	---	5,333
Total General Revenue				-10,245	2,391,245	2,381,000
CHANGE IN NET ASSETS				-61,442	2,528,473	2,467,031
NET ASSETS - BEGINNING OF YEAR				1,168,962	8,554,108	9,723,070
NET ASSETS - END OF YEAR				\$ 1,107,520	\$ 11,082,581	\$ 12,190,101

See Accompanying Notes to Financial Statements.

BALANCE SHEET

DECEMBER 31, 2006

	Debt	Special Revenue	Total Governmental Funds
ASSETS			
Cash and Investments	\$ 459,653	\$ 681,572	\$ 1,141,225
Accounts Receivable	---	---	---
Due from Other Governmental Units	---	---	---
Due from Other Funds	---	4,373	4,373
Prepaid Expenditures	---	---	---
TOTAL ASSETS	<u>\$ 459,653</u>	<u>\$ 685,945</u>	<u>\$ 1,145,598</u>
LIABILITIES AND FUND BALANCES			
LIABILITIES			
Accounts Payable	\$ ---	\$ ---	\$ ---
Due to Other Funds	---	1,155	1,155
Deferred Revenue	---	---	---
TOTAL LIABILITIES	<u>---</u>	<u>1,155</u>	<u>1,155</u>
FUND BALANCES			
Reserved for Debt Service	459,653	---	459,653
Unreserved, Designated	---	684,790	684,790
Unreserved and Undesignated	---	---	---
TOTAL FUND BALANCES	<u>459,653</u>	<u>684,790</u>	<u>1,144,443</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 459,653</u>	<u>\$ 685,945</u>	<u>\$ 1,145,598</u>
TOTAL GOVERNMENTAL FUND BALANCES			\$ 1,144,443
Amounts reported for governmental activities in the statement of net assets are different because:			
Long-term liabilities are not due and payable in the current period and are not reported in the fund:			
Compensated absences			-28,593
Accrued interest is not included as a liability in governmental funds			<u>-8,330</u>
NET ASSETS OF GOVERNMENTAL ACTIVITIES			<u>\$ 1,107,520</u>

See Accompanying Notes to Financial Statements.

LAKEWOOD WASTEWATER AUTHORITY

Governmental Funds

STATEMENT OF REVENUE, EXPENDITURES AND CHANGES IN FUND BALANCES

YEAR ENDED DECEMBER 31, 2006

	Debt	Special Revenue	Totals
REVENUE			
Property Taxes	\$ ---	\$ ---	\$ ---
State Grants	---	---	---
Charges for Services	875	7,871	8,746
Interest	17,105	30,057	47,162
Other	110	5,223	5,333
TOTAL REVENUE	18,090	43,151	61,241
EXPENDITURES			
General Government	---	---	---
Public Safety	---	---	---
Public Works	---	---	---
Recreational and Cultural	---	---	---
Debt Service	58,620	---	58,620
Capital Outlay	---	---	---
TOTAL EXPENDITURES	58,620	---	58,620
EXCESS OF REVENUE OVER <UNDER> EXPENDITURES	-40,530	43,151	2,621
OTHER FINANCING SOURCES			
Operating Transfers In	255,000	559,000	814,000
Operating Transfers Out	-190,000	-686,740	-876,740
TOTAL OTHER FINANCING SOURCES	65,000	-127,740	-62,740
NET CHANGE IN FUND BALANCES	24,470	-84,589	-60,119
FUND BALANCES - BEGINNING OF YEAR	435,183	769,379	1,204,562
FUND BALANCES - END OF YEAR	\$ 459,653	\$ 684,790	\$ 1,144,443

See Accompanying Notes to Financial Statements.

**RECONCILIATION OF THE STATEMENT OF REVENUE, EXPENDITURES
AND CHANGES IN FUND BALANCES TO THE
STATEMENT OF ACTIVITIES****YEAR ENDED DECEMBER 31, 2006****NET CHANGE IN FUND BALANCES - TOTAL GOVERNMENTAL FUNDS** **\$ -60,119**

Amounts reported for governmental activities in the statement of activities are different because:

- Governmental funds report capital outlays as expenditures; in the statement of activities these costs are allocated over their estimated useful lives as depreciation.

Depreciation Expense

Capital Outlay

- Accrued interest is recorded in the statement of activities when incurred; it is not reported in governmental funds until paid

1,377

- Compensated absences are included in expenditures in the statement of activities but not in the governmental funds

-2,700**CHANGE IN NET ASSETS OF GOVERNMENTAL ACTIVITIES**\$ -61,442

LAKEWOOD WASTEWATER AUTHORITY

Proprietary Fund

STATEMENT OF NET ASSETS

DECEMBER 31, 2006

	<u>Sewer Fund</u>
ASSETS	
Current Assets	
Cash and Cash Equivalents	\$ 293,903
Accounts Receivable	536,469
Prepaid Expenses	<u>---</u>
Total Current Assets	<u>830,372</u>
Non-Current Assets	
Capital Assets	<u>11,726,954</u>
TOTAL ASSETS	<u>\$ 12,557,326</u>
 LIABILITIES	
Current Liabilities	
Current Portion of Bonds Payable	\$ 200,000
Accounts Payable	<u>394,745</u>
Total Current Liabilities	594,745
Long-Term Liabilities	
Bonds Payable - Long-Term	<u>880,000</u>
TOTAL LIABILITIES	<u>1,474,745</u>
 NET ASSETS	
Invested in Capital Assets, Net of Related Debt	10,646,954
Restricted for Debt Service	<u>---</u>
Unrestricted	<u>435,627</u>
TOTAL NET ASSETS	<u>\$ 11,082,581</u>

See Accompanying Notes to Financial Statements.

STATEMENT OF REVENUE, EXPENSES AND CHANGES IN NET ASSETS
FOR THE YEAR ENDED DECEMBER 31, 2006

	<u>Sewer Fund</u>
OPERATING REVENUE	
Charges for Services	<u>\$ 1,075,044</u>
OPERATING EXPENSES	
Salaries	192,087
Payroll Taxes	14,764
Employee Benefits	63,853
Office Supplies	6,124
Gas and Oil	11,587
Supplies and Chemicals	42,975
Maintenance	43,968
Utilities	119,276
Insurance	33,471
Telephone	10,481
Printing	242
Depreciation	386,353
Other	610
Training	3,275
Professional Fees	<u>8,750</u>
TOTAL OPERATING EXPENSES	<u>937,816</u>
OPERATING INCOME	137,228
NON-OPERATING REVENUE	
Construction Revenue	2,314,335
Transfers In <Out> - Net	62,740
Interest	<u>14,170</u>
CHANGE IN NET ASSETS	2,528,473
NET ASSETS - BEGINNING	<u>8,554,108</u>
NET ASSETS - ENDING	<u><u>\$ 11,082,581</u></u>

See Accompanying Notes to Financial Statements.

LAKEWOOD WASTEWATER AUTHORITY

Proprietary Fund

STATEMENT OF CASH FLOW

FOR THE YEAR ENDED DECEMBER 31, 2006

	Sewer Fund
CASH FLOW FROM OPERATING ACTIVITIES	
Cash Received from Customers	\$ 1,046,468
Cash Payments for Goods and Services	-297,372
Cash Payments to Employees	-192,087
Cash Payments for Employee Benefits	-78,617
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>478,392</u>
CASH FLOW FROM NONCAPITAL FINANCING ACTIVITIES	
Construction Revenue	2,314,335
Transfers <to> from Other Funds	62,740
NET CASH PROVIDED BY NONCAPITAL FINANCING ACTIVITIES	<u>2,377,075</u>
CASH FLOW FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Bond Principal Payments	<u>-190,000</u>
CASH FLOW FROM INVESTING ACTIVITIES	
Receipts of Interest and Dividends	14,170
Sale of Assets	---
Purchase of Assets	-3,024,777
NET CASH PROVIDED <USED> BY INVESTING ACTIVITIES	<u>-3,010,607</u>
NET INCREASE <DECREASE> IN CASH	-345,140
CASH - BEGINNING OF YEAR	<u>639,043</u>
CASH - END OF YEAR	<u><u>\$ 293,903</u></u>
RECONCILIATION OF OPERATING INCOME <LOSS> TO NET CASH PROVIDED BY OPERATING ACTIVITIES	
Operating Income	137,228
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities:	
Depreciation Expense	386,353
Decrease <Increase> in Accounts Receivable	-429,997
Decrease <Increase> in Prepaid Expenses	---
Increase <Decrease> in Accounts Payable	384,808
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u><u>\$ 478,392</u></u>

See Accompanying Notes to Financial Statements.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the Authority conform to United States generally accepted accounting principles as applicable to governmental units. The following is a summary of the significant accounting policies.

A. REPORTING ENTITY

The Articles of Incorporation were adopted by the incorporating municipal corporations for the purpose of creating an authority under the provisions of Act 233, Public Acts of Michigan, 1955, as amended, on January 20, 1980.

The name of this Authority is Lakewood Wastewater Authority. The municipal office of the authority is located at 13751 Harwood Road, Lake Odessa, Michigan.

The names of the municipal corporations creating this authority are the Township of Woodland, and the Village of Woodland, located in Barry County, State of Michigan, and the Township of Odessa and the Village of Lake Odessa, located in the County of Ionia, State of Michigan, which are designated as the constituent municipalities.

The purpose of the Authority is to acquire, construct, operate, maintain, administer and manage any sewage disposal system and treatment plant constructed or to be constructed for the benefit of the constituent municipalities, in accordance with the authorization of Act 232, Public Acts of Michigan, 1955, as amended, or pursuant to any other legal authority, provided, however, that pre-existing systems and treatment plants may be operated in whole or in part by a constituent municipality and such municipality may contract with the authority for the purpose of obtaining services of sewage disposal systems including treatment plants, mains, interceptors, trunks, force mains or other sanitary sewer improvements to be constructed in the future either as new facilities or additions, extensions, enlargements or improvements to existing facilities pursuant to contract between the constituent municipality and the authority.

The governing body of the Authority is a commission, which is composed of six commissioners, three appointed by the Village of Lake Odessa, one appointed by the Township of Odessa, one appointed by the Village of Woodland, and one appointed by the Township of Woodland.

The commissioners are appointed for a term of three years, with the term of office commencing on January 1, of the appropriate year and ending on December 31, of the appropriate year.

As defined by Governmental Accounting Standards Board (GASB) No. 14, the financial reporting entity consists of (1) the primary government, (2) organizations for which the primary government is financially accountable, and (3) other organizations for which the primary government is not accountable, but for which the nature and significance of their relationship with the primary government are such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete. The primary government has financial accountability if it:

1. appoints a voting majority of the organization's board, and has the ability to impose its will on the organization; or
2. there is a potential for the component unit to provide certain financial benefits to, or impose certain financial burdens on, the primary government.

LAKEWOOD WASTEWATER AUTHORITY

Notes To Financial Statements

A. REPORTING ENTITY (CONTINUED)

Based on the above criteria, no additional organizations or entities are included in these financial statements.

B. BASIS OF PRESENTATION

Government-Wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the non-fiduciary activities of the primary government. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenue includes (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Taxes, intergovernmental payments, and other items not properly included among program revenues are reported instead as general revenue.

Separate financial statements are provided for governmental funds and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements.

Government-Wide Statements - The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants, categorical aid and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

As a general rule, the effect of inter-fund activity has been eliminated from the government-wide financial statements.

Fund Based Statements - Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and severance pay, are recorded only when payment is due.

Property taxes, unrestricted state aid, intergovernmental grants and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenue of the current fiscal period. All other revenue items are considered to be available only when cash is received by the government.

GOVERNMENTAL FUNDS

Special Revenue Funds - Special Revenue Funds are used to account for the proceeds of specific revenue sources (other than Building and Site Funds) that are legally restricted to expenditures for specified purposes. The Special Revenue Funds maintained by the Authority are the Capital Improvement Fund, Replacement Fund, and Bio-Solids Fund.

Debt Service Funds - Debt Service Funds are used for the collection of revenues and the payment of bonded debt principal and interest. The Authority maintains one debt service fund called the Sewage Disposal Plant Debt Fund.

PROPRIETARY FUNDS

Enterprise Funds - Enterprise funds are used to account for operations (a) that are financed and operated in a manner similar to private business enterprises - where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through use charges; or (b) where the governing body has decided that periodic determination of revenues earned, expenses and/or net income is appropriate for capital maintenance, public policy, management control, accountability or other purposes.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements.

Amounts reported as program revenue include: (1) charges to customers or applicants for goods, services or privileges provided; (2) operating grants and contributions; and (3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as general revenue rather than as program revenue. Likewise, general revenue includes all taxes.

Proprietary funds distinguish operating revenue and expenses from non-operating items. Operating revenue and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenue of our proprietary funds relate to charges to customers for usage and services. Operating expenses for proprietary funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenue and expenses not meeting this definition are reported as non-operating revenue and expenses.

LAKEWOOD WASTEWATER AUTHORITY

Notes To Financial Statements

C. BUDGETS AND BUDGETARY ACCOUNTING

The Debt Service Fund and Special Revenue Funds are under formal budgetary control. Budgets are adopted on the modified accrual basis of accounting. Amendments are by action of the Board.

P.A. 621 of 1978, Section 18 (1), as amended, provides that a local unit shall not incur expenditures in excess of the amount appropriated.

In the body of the financial statements, the Authority's actual expenditures and budgeted expenditures for the budgetary funds have been shown on a functional basis. The approved budgets of the Authority for these budgetary funds were adopted at the functional level.

D. CASH EQUIVALENTS

The Authority considers all highly liquid investments with maturity of three months or less when purchased to be cash equivalents.

E. FINANCIAL INSTRUMENTS

The Authority does not require collateral to support financial instruments subject to credit risk.

F. SHORT-TERM INTERFUND RECEIVABLES AND PAYABLES

During the course of operations, numerous transactions occur between individual funds for goods provided or services rendered. These receivables and payables are classified as "due from other funds" or "due to other funds" on the balance sheet.

G. FUND EQUITY

Reservations of fund balance represent these portions of fund equity not appropriable for expenditure or legally segregated for a specific future use.

H. CAPITAL ASSETS

Capital assets, which include land, buildings, equipment, and vehicles, are reported in the applicable governmental column in the government-wide financial statements. The government defines capital assets as assets with an initial individual cost of more than \$1,000 and an estimated useful life in excess of 1 year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. Costs of normal repair and maintenance that do not add to the value materially extended asset life are not capitalized.

Buildings, equipment, and vehicles are depreciated using the straight-line method over the following useful lives:

Plant and System	10-50 years
Vehicles	5-10 years
Other equipment	3-20 years

I. LONG-TERM OBLIGATIONS

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period.

Premiums received on debt issuances are reported as other financing sources while discounts are reported as other financing uses. Issuance costs are reported as debt service expenditures.

J. TOTAL COLUMNS ON COMBINED STATEMENTS

Total columns on the Combined Statements are captioned (Memo Only) to indicate that they are presented only to facilitate financial analysis. Data in these columns do not present financial position or results of operations in conformity with generally accepted accounting principles. Neither is such data comparable to a consolidation. Inter-fund eliminations have not been made in the aggregation of this data.

K. RISK MANAGEMENT

The Authority is exposed to various risks of loss to torts; theft of, damage to and destruction of assets; errors and omissions; and natural disasters for which the Authority carries commercial insurance. Liabilities in excess of insurance coverage, if any, are reported when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated.

L. ESTIMATES

The preparation of financial statements in conformity with United States generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

LAKEWOOD WASTEWATER AUTHORITY

Notes To Financial Statements

NOTE 2 - DEPOSITS WITH FINANCIAL INSTITUTIONS

A. LEGAL OR CONTRACTUAL PROVISIONS FOR DEPOSITS AND INVESTMENTS

The Michigan Political Subdivisions Act No. 20, Public Acts of 1943, as amended by Act No. 217, Public Acts of 1982, states the Authority, by resolution, may authorize investment of surplus funds as follows:

1. In bonds and other direct obligations of the United States or an agency or instrumentality of the United States.
2. In certificates of deposit, savings accounts, or depository receipts of a bank, which is a member of the Federal Deposit Insurance Corporation; or a savings and loan association, which a member of the Federal Savings and Loan Insurance Corporation; or a credit union, which is insured by the National Credit Union Association; but only if the bank, savings and loan association, or credit union complies with Subsection (2).
3. In commercial paper rated at the time of purchase within the 2 highest classifications established by not less than 2 standard rating services and which matures not more than 270 days after the date of purchase. Not more than 50% of any fund may be invested in commercial paper at any time.
4. In United States government or Federal agency obligation repurchase agreements.
5. In bankers' acceptances of United States banks.
6. In mutual funds composed of investment vehicles that are legal for direct investment by local units of government in Michigan.

The Authority is in compliance with State law regarding their cash deposits.

The Authority maintains all of its cash deposits at two banks.

The Governmental Accounting Standards Board Statement No. 3 risk disclosures for the Authority's cash deposits are as follows:

Deposits	Book Value	Carrying Amounts
Insured (FDIC)	\$ 200,000	\$ 200,000
Uninsured & Uncollateralized	1,235,128	1,242,011
Total Deposits	<u>\$ 1,435,128</u>	<u>\$ 1,442,011</u>

The differences between the book value and the bank carrying amounts are caused by deposits in transit and outstanding checks.

NOTE 3 - ACCUMULATED FUND DEFICITS

There were no accumulated fund deficits at December 31, 2006.

NOTE 4 - DUE TO/FROM OTHER FUNDS

Due to/due from other funds were as follows at December 31, 2006.

<u>Due To</u>		<u>Due from</u>	
Capital Improvement	\$ 4,373	Sewer	\$ 4,373
Sewer	<u>1,155</u>	Replacement	<u>1,155</u>
	<u>\$ 5,528</u>		<u>\$ 5,528</u>

NOTE 5 - CAPITAL ASSETS

Capital asset activity of the Authority's Business-type activities was as follows:

	Balance January 1, 2006	Additions	Disposals and Adjustments	Balance December 31, 2006
Assets not being depreciated:				
Land	\$ 507,804	\$ ---	\$ ---	\$ 507,804
Capital assets being depreciated:				
Plant and Sewer System	13,568,885	2,992,501	---	16,561,386
Equipment	<u>94,834</u>	<u>32,276</u>	<u>72,838</u>	<u>54,272</u>
Subtotal	<u>13,663,719</u>	<u>3,024,777</u>	<u>72,838</u>	<u>16,615,658</u>
Accumulated depreciation:				
Plant and Sewer System	5,002,612	373,699	---	5,376,311
Equipment	<u>80,381</u>	<u>12,654</u>	<u>72,838</u>	<u>20,197</u>
Subtotal	<u>5,082,993</u>	<u>386,353</u>	<u>72,838</u>	<u>5,396,508</u>
Net capital assets being depreciated	<u>8,580,726</u>	<u>2,638,424</u>	<u>---</u>	<u>11,219,150</u>
Net capital assets	<u>\$ 9,088,530</u>	<u>\$ 2,638,424</u>	<u>\$ ---</u>	<u>\$ 11,726,954</u>

LAKEWOOD WASTEWATER AUTHORITY

Notes To Financial Statements

NOTE 6 - BONDS PAYABLE

On February 4, 1992 the Authority issued revenue bonds totaling \$2,780,000. The expenses associated with the bonds were dated February 1, and matured on November 1 of the years 1992 through 2011, with interest payable on each May 1 and November 1 commencing May 1, 1992.

Interest rates varied from 5.1% to 7.8%. Bonds payable after 2001 were refunded as part of a new bond issue dated November 1, 1998. Bonds were issued totaling \$2,005,000. Interest is payable on May 1st and November 1st of each year, with interest rates varying from 3.5% to 4.8%. Principal payments are payable on November 1st each year. Principal and interest are payable as follows:

	Principal	Interest	Total
2007	\$ 200,000	\$ 49,980	\$ 249,980
2008	200,000	41,080	241,080
2009	215,000	31,980	246,980
2010	230,000	22,090	252,090
2011	235,000	11,280	246,280
	<u>\$ 1,080,000</u>	<u>\$ 156,410</u>	<u>\$ 1,236,410</u>

NOTE 7 - RETIREMENT SYSTEM

The Authority has a defined contribution pension plan covering substantially all employees. Contributions are based on 3 1/2 percent of each employee's regular salary and wages. The total pension payments for 2006 were \$5,876. Total qualifying wages were \$167,886.

NOTE 8 - BUDGETARY ACCOUNTING

During the year ended December 31, 2006, the Authority incurred no expenditures that were in excess of the amounts appropriated.

NOTE 9 - SEGMENT INFORMATION FOR ENTERPRISE FUND

The Authority maintains one Enterprise Fund providing sewer services. Segment information for the year ended December 31, 2006, is as follows:

Operating Revenues	\$ 1,089,214
Operating Expenses Before Depreciation	551,463
Depreciation	386,353
Operating Income	151,398
Net Earnings	2,528,473
Total Assets	12,557,326
Long-Term Debt - Payable From Operating Revenue	1,080,000
Total Net Assets	\$ 11,082,581

NOTE 10 - RISK MANAGEMENT AND LITIGATION

The Authority is exposed to various risks of losses related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. For the past several years the Authority has obtained coverage from commercial insurance companies and has effectively managed risk through various employee education and prevention programs. All risk management activities are accounted for in the Enterprise Fund. Expenditures and claims are recognized when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated. In determining claims, events that might create claims, but for which none have been reported, are considered. At December 31, 2006, no claims exist, and no provision has been entered into the accounting records.

NOTE 11 - CONSTRUCTION REVENUE

In the year ended December 31, 2006, the Authority was involved in various facility expansion projects, which were funded by customers or other sources. Details are as follows:

<u>Construction Revenue</u>	
Oxidation Ditch Project	\$ 1,731,948
Jordan Lake Road Extension	<u>582,387</u>
Total Construction Revenue	<u><u>\$ 2,314,335</u></u>

At December 31, 2006, final payments related to these construction projects had not yet been made. Receivables and payables related to these projects are classified as construction receivables and construction payables.

LAKEWOOD WASTEWATER AUTHORITY

REQUIRED SUPPLEMENTAL INFORMATION

BUDGETARY COMPARISON SCHEDULE

YEAR ENDED DECEMBER 31, 2006

	Budgeted Amounts		Actual	Variance
	Original	Final	(Budgetary Basis)	
REVENUE				
Property Taxes	\$ ---	\$ ---	\$ ---	\$ ---
State Grants	---	---	---	---
Charges for Services	3,000	3,000	875	-2,125
Interest	8,000	8,000	17,105	9,105
Other	---	---	110	110
Transfers In	255,000	255,000	255,000	---
TOTAL REVENUE	266,000	266,000	273,090	7,090
EXPENDITURES				
General Government	---	---	---	---
Public Safety	---	---	---	---
Public Works	---	---	---	---
Recreation and Culture	---	---	---	---
Debt Service	66,000	66,000	58,620	7,380
Capital Outlay	---	---	---	---
Other Uses - Operating Transfers Out	200,000	200,000	190,000	10,000
TOTAL EXPENDITURES	266,000	266,000	248,620	17,380
EXCESS OF REVENUE OVER EXPENDITURES AND OTHER USES	---	---	24,470	24,470
BUDGETARY FUND BALANCE - JANUARY 1, 2006	435,183	435,183	435,183	---
BUDGETARY FUND BALANCE - DECEMBER 31, 2006	\$ 435,183	\$ 435,183	\$ 459,653	\$ 24,470

LAKEWOOD WASTEWATER AUTHORITY

Special Revenue Funds

BUDGETARY COMPARISON SCHEDULE

YEAR ENDED DECEMBER 31, 2006

	Budgeted Amounts		Actual	Variance
	Original	Final	(Budgetary Basis)	
REVENUE				
Property Taxes	\$ ---	\$ ---	\$ ---	\$ ---
State Grants	---	---	---	---
Charges for Services	3,000	3,000	7,871	4,871
Interest	6,600	6,600	30,057	23,457
Other	4,000	4,000	5,223	1,223
Transfers In	160,000	559,000	559,000	---
TOTAL REVENUE	173,600	572,600	602,151	29,551
EXPENDITURES				
General Government	---	---	---	---
Public Safety	---	---	---	---
Public Works	---	---	---	---
Recreation and Culture	---	---	---	---
Debt Service	---	---	---	---
Capital Outlay	---	---	---	---
Other Uses - Operating Transfers Out	500,100	899,100	686,740	212,360
TOTAL EXPENDITURES	500,100	899,100	686,740	212,360
EXCESS OF REVENUE OVER <UNDER> EXPENDITURES AND OTHER USES	-326,500	-326,500	-84,589	241,911
BUDGETARY FUND BALANCE - JANUARY 1, 2006	769,379	769,379	769,379	---
BUDGETARY FUND BALANCE - DECEMBER 31, 2006	\$ 442,879	\$ 442,879	\$ 684,790	\$ 241,911

OTHER SUPPLEMENTAL INFORMATION

LAKEWOOD WASTEWATER AUTHORITY

Sewage Disposal Plant Debt Fund

COMPARATIVE BALANCE SHEET

DECEMBER 31, 2006 AND 2005

	<u>2006</u>	<u>2005</u>
ASSETS		
Cash	\$ 459,653	\$ 435,183
Accounts Receivable	---	---
Special Assessment Receivable	---	666
TOTAL ASSETS	<u>\$ 459,653</u>	<u>\$ 435,849</u>
 LIABILITIES AND FUND BALANCE		
Deferred Revenue	\$ ---	\$ 666
Fund Balance	459,653	435,183
TOTAL LIABILITIES AND FUND BALANCE	<u>\$ 459,653</u>	<u>\$ 435,849</u>

Sewage Disposal Plant Debt Fund**COMPARATIVE STATEMENT OF REVENUE, EXPENDITURES,
TRANSFERS AND FUND BALANCE****YEARS ENDED DECEMBER 31, 2006 AND 2005**

	2006	2005
REVENUE		
Connection Charges	\$ 875	\$ 15,657
Interest	17,105	10,998
Penalties	110	210
Miscellaneous	---	44
TOTAL REVENUE	18,090	26,909
EXPENDITURES		
Interest on Bond Issue	58,245	65,895
Fees and Bank Charges	375	300
TOTAL EXPENDITURES	58,620	66,195
EXCESS OF REVENUE OVER <UNDER> EXPENDITURES	-40,530	-39,286
TRANSFERS IN TRANSFERS <OUT>	255,000 -190,000	241,000 -180,000
EXCESS OF REVENUE AND TRANSFERS OVER EXPENDITURES AND TRANSFERS	24,470	21,714
FUND BALANCE - BEGINNING OF YEAR	435,183	413,469
FUND BALANCE - END OF YEAR	\$ 459,653	\$ 435,183

LAKEWOOD WASTEWATER AUTHORITY

Replacement Fund

COMPARATIVE BALANCE SHEET

DECEMBER 31, 2006 AND 2005

	2006	2005
ASSETS		
Cash	\$ 246,463	\$ 188,749
Certificates of Deposit	102,700	102,078
TOTAL ASSETS	\$ 349,163	\$ 290,827
LIABILITIES AND FUND BALANCE		
LIABILITIES		
Due to Other Funds	\$ 1,155	\$ ---
FUND BALANCE	348,008	290,827
TOTAL LIABILITIES AND FUND BALANCE	\$ 349,163	\$ 290,827

Replacement Fund

COMPARATIVE STATEMENT OF REVENUE, EXPENDITURES, TRANSFERS AND FUND BALANCE

YEARS ENDED DECEMBER 31, 2006 AND 2005

	2006	2005
REVENUE		
Interest	\$ 12,864	\$ 7,774
Sale of Assets	850	---
TOTAL REVENUE	13,714	7,774
EXPENDITURES	---	---
EXCESS OF REVENUE OVER EXPENDITURES	13,714	7,774
TRANSFERS IN	325,000	---
TRANSFERS <OUT>		
Plant	-249,257	-15,599
Equipment	-32,276	-899
Other	---	---
EXCESS OF REVENUE AND TRANSFERS OVER <UNDER> EXPENDITURES AND TRANSFERS	57,181	-8,724
FUND BALANCE - BEGINNING OF YEAR	290,827	299,551
FUND BALANCE - END OF YEAR	\$ 348,008	\$ 290,827

Capital Improvement Fund**COMPARATIVE BALANCE SHEET****DECEMBER 31, 2006 AND 2005**

	2006	2005
ASSETS		
Cash	\$ 40,192	\$ 229,480
Certificates of Deposit	102,700	102,078
Due from Other Funds	4,373	
TOTAL ASSETS	\$ 147,265	\$ 331,558
LIABILITIES AND FUND BALANCE		
Escrow Payable	---	---
Fund Balance	\$ 147,265	\$ 331,558
TOTAL LIABILITIES AND FUND BALANCE	\$ 147,265	\$ 331,558

Capital Improvement Fund**COMPARATIVE STATEMENT OF REVENUE, EXPENDITURES,
TRANSFERS AND FUND BALANCE****YEARS ENDED DECEMBER 31, 2006 AND 2005**

	2006	2005
REVENUE		
Connection Charges	\$ 7,871	\$ 9,000
Interest	9,670	9,056
Land Rent	4,373	4,373
TOTAL REVENUE	21,914	22,429
EXPENDITURES	---	---
EXCESS OF REVENUE AND TRANSFERS OVER EXPENDITURES	21,914	22,429
TRANSFERS IN	199,000	153,000
TRANSFERS <OUT>	-405,207	-147,607
EXCESS OF REVENUE AND TRANSFERS OVER <UNDER> EXPENDITURES AND TRANSFERS	-184,293	27,822
FUND BALANCE - BEGINNING OF YEAR	331,558	303,736
FUND BALANCE - END OF YEAR	\$ 147,265	\$ 331,558

LAKEWOOD WASTEWATER AUTHORITY

Bio-Solids Fund

COMPARATIVE BALANCE SHEET

DECEMBER 31, 2006 AND 2005

	2006	2005
ASSETS		
Cash	\$ 1,575	\$ 4,085
Certificates of Deposit	187,942	142,909
TOTAL ASSETS	<u>\$ 189,517</u>	<u>\$ 146,994</u>
FUND BALANCE	<u>\$ 189,517</u>	<u>\$ 146,994</u>

Bio-Solids Fund

COMPARATIVE STATEMENT OF REVENUE, EXPENDITURES, TRANSFERS AND FUND BALANCE

YEARS ENDED DECEMBER 31, 2006 AND 2005

	2006	2005
REVENUE		
Interest	\$ 7,523	\$ 4,049
EXPENDITURES	---	---
EXCESS OF REVENUE OVER EXPENDITURES	7,523	4,049
TRANSFERS IN	35,000	35,000
TRANSFERS <OUT>	---	---
EXCESS OF REVENUE AND TRANSFERS OVER EXPENDITURES AND TRANSFERS	42,523	39,049
FUND BALANCE - BEGINNING OF YEAR	146,994	107,945
FUND BALANCE - END OF YEAR	<u>\$ 189,517</u>	<u>\$ 146,994</u>

COMPARATIVE BALANCE SHEET

DECEMBER 31, 2006 AND 2005

	2006	2005
ASSETS		
CURRENT ASSETS		
Cash In Bank		
General operating	\$ 255,848	\$ 625,325
Payroll account	38,055	13,718
Certificate of deposit	---	---
Total Cash In Bank	293,903	639,043
Receivables		
Due from Other Funds	1,155	---
Due For Sewer Charges And Penalties	132,048	106,472
Construction Receivables	403,266	---
TOTAL CURRENT ASSETS	830,372	745,515
PROPERTY, PLANT AND EQUIPMENT		
Land	507,804	507,804
Plant	16,561,386	13,568,885
Equipment	54,272	94,834
Less Provision for Depreciation	-5,396,508	-5,082,993
TOTAL PROPERTY, PLANT AND EQUIPMENT	11,726,954	9,088,530
TOTAL ASSETS	\$ 12,557,326	\$ 9,834,045
LIABILITIES AND RETAINED EARNINGS		
LIABILITIES		
Accounts Payable	\$ 8,531	\$ 9,937
Construction Payables	381,841	---
Due to Other Funds	4,373	---
Bonds Payable	1,080,000	1,270,000
TOTAL LIABILITIES	1,474,745	1,279,937
RETAINED EARNINGS	11,082,581	8,554,108
TOTAL LIABILITIES AND RETAINED EARNINGS	\$ 12,557,326	\$ 9,834,045

LAKEWOOD WASTEWATER AUTHORITY

Sewer Fund

COMPARATIVE STATEMENT OF REVENUE, EXPENSES AND CHANGES IN RETAINED EARNINGS

FOR THE YEARS ENDED DECEMBER 31, 2006 AND 2005

	2006	2005
REVENUE		
Charges for Service	\$ 857,537	\$ 782,084
Interest	14,170	10,401
Penalties and Extra Strength	217,394	241,556
Miscellaneous	113	10
TOTAL REVENUE	1,089,214	1,034,051
OPERATING EXPENSES		
Compensation	192,087	188,848
Payroll Taxes	14,764	14,390
Benefits	50,507	60,773
Insurance	33,471	31,418
Pension Plan	5,876	5,416
Workers Comp.	7,470	6,054
Telephone	10,481	10,198
Professional Fees	8,750	5,628
Office and Computer Supplies	6,124	5,170
Laboratory Supplies and Analysis	42,975	25,676
Gas and Oil	11,587	11,464
Repairs and Maintenance	43,968	70,031
Utilities	119,276	105,084
Advertising and Printing	242	390
Education	3,275	2,409
Safety	460	647
Miscellaneous	150	429
Depreciation	386,353	347,477
TOTAL OPERATING EXPENSES	937,816	891,502
NET INCOME BEFORE TRANSFERS	151,398	142,549
CONSTRUCTION REVENUE	2,314,335	---
TRANSFERS IN	876,740	344,105
TRANSFERS <OUT>	-814,000	-429,000
INCREASE IN RETAINED EARNINGS	2,528,473	57,654
RETAINED EARNINGS - BEGINNING OF YEAR	8,554,108	8,496,454
RETAINED EARNINGS - END OF YEAR	\$ 11,082,581	\$ 8,554,108

3775 Kimmel Road

Fax

(517) 937-9333 Phone / 563-2552

**REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL
REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED
IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

To the Board of Directors
Lakewood Wastewater Authority

We have audited the financial statements of Lakewood Wastewater Authority as of and for the year ended December 31, 2006, and have issued our report thereon dated January 24, 2007. We conducted our audit in accordance with United States generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the Lakewood Wastewater Authority's general purpose financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Lakewood Wastewater Authority's control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the general purpose financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the general purpose financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

This report is intended for the information of Board of Directors, management and the State of Michigan. However, this report is a matter of public record and its distribution is not limited.



Karl L. Drake, P.C.
Certified Public Accountant

January 24, 2007

Karl L. Drake, P.C.
Certified Public Accountant

3775 Kimmel Road

(517) 937-9333 Phone / 563-2552

Fax

January 24, 2007

To the Board of Directors of
Lakewood Wastewater Authority

I have recently completed the audit of Lakewood Wastewater Authority for the year ended December 31, 2006, and would like to take this opportunity to make the following comments and recommendations.

Financial Overview

The ending fund balances of the Authority were as follows:

<u>Fund</u>	<u>Ending Fund Balance</u>	<u>Increase (Decrease)</u>
Sewer Fund	\$ 11,082,581	\$ 2,528,473
Debt Fund	459,653	24,470
Replacement Fund	348,008	57,181
Capital Improvement Fund	147,265	-184,293
Bio-Solids Fund	189,517	42,523

The Authority was involved in several facility expansion projects during the year including the oxidation ditch, the Jordan Lake Road extension, and the Huddle Road force main project. The commercial customer and grant funding jointly funded the oxidation ditch and the Jordan Lake extension. The Huddle Road force main project was funded by capital improvement funds.

Accounting

Karla continues to do a good job with the accounting records. This year, because of the construction projects, she struggled with the transfers between the funds and with reconciling the bank accounts. Consequently, her reporting was not as prompt as prior years.

Thank you for the opportunity to work with the Authority.

Sincerely,



Karl L. Drake, CPA